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DE RUEHBR #0282 0471503
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FM AMEMBASSY BRASILIA
TO RUEHC/SECSTATE WASHDC PRIORITY 8130
INFO RUEHRI/AMCONSUL RIO DE JANEIRO 3875
RUEHSO/AMCONSUL SAO PAULO 9234
RUEHRG/AMCONSUL RECIFE 6251
RUEHLP/AMEMBASSY LA PAZ 5166
RUEHBU/AMEMBASSY BUENOS AIRES 4589
RUEHSG/AMEMBASSY SANTIAGO 6091
RUEHMN/AMEMBASSY MONTEVIDEO 6750
RUEHAC/AMEMBASSY ASUNCION 5942
RUEHPE/AMEMBASSY LIMA 3358
RUEHBO/AMEMBASSY BOGOTA 4106
RUEHCV/AMEMBASSY CARACAS 3602
RUEHQT/AMEMBASSY QUITO 2131
RUEHPO/AMEMBASSY PARAMARIBO 1243
RUCPDO/USDOC WASHDC
RHEBAAA/USDOE WASHDC

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STATE PASS TO USTR:SCRONIN
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SUBJECT: BRAZIL TO PAY MORE FOR BOLIVIAN GAS

¶1. (SBU) An agreement reached February 15 between Brazil and Bolivia created a formula that could oblige the parastatal Brazilian energy company, Petrobras, to pay up to four percent more each year for the Bolivian natural gas that primarily supplies the state of Sao Paulo. The increase--although less than what had been asked for by Bolivia, which had sought an adjustment of 25 percent--is being viewed by local analysts as a victory for Bolivian President Evo Morales and could constitute an extra \$100 million per year for Bolivia. Morales indicated his intention to continue being a trusted supplier to the Brazilian marketplace. "We will comply with all the contracts that we have with Petrobras. There will never be a lack of gas for Brazil," he promised. Bolivia sells 27 million cubic meters of gas daily to Brazil.

¶2. (SBU) Silas Rondeau, Brazilian Mines and Energy Minister, confirmed that the new formula, according to Petrobras's analysis and based on the volume of gas received in 2006, will represent an increase of three to four percent per year. Rondeau stated that only half of one percent of the cost would be passed to the individual consumer. Bolivia had wanted Brazil to pay the same price as Argentina, a price of US\$5 BTU. Petrobras President Sergio Gabrielli said that price could not happen, noting that Bolivia was not taking into account the investments made by Brazil, nor the larger volume of gas that Brazil purchases. Gabrielli indicated that the agreement will build on and respect the terms of the current contract between Petrobras and Bolivia. Still, Gabrielli was cautious when discussing the eventual impact to the consumer: "The price of gas will depend on the state distributors," he said. The Brazilian state of Mato Grosso is an example: the two countries announced on Wednesday an agreement that will increase the price of Bolivian gas sold to Mato Grosso by 285 percent. Mato Grosso's governor told Reuters that the federal government will bankroll the increase in price by the thermoelectric plant in Bolivia.

¶3. (SBU) Morales's visit, which almost didn't happen due to the possibility of a breakdown in the discussion, ended up being extended for a second day due to the complexity of the negotiations. To help close the deal, Brazil apparently pledged to help Bolivia construct hydroelectric plants near the border with Brazil.

14. (SBU) Post will continue to follow this issue and report as warranted.

SOBEL